



# Town of Lunenburg

Financial Summit  
Presentation  
November 9, 2010

1



## Why Forecast?

- Best Financial & Management Practices
- Required by Town's Charter, Section 4-2 (s)
- Bond Rating Agencies are favorably impressed with forecasting

2

## [ Forecasting v. Budgeting ]

- Forecast provides a long-term and comprehensive financial perspective on service delivery using both known information & hypothesis
- Budget is a specific plan detailing service delivery in the coming fiscal year

3

## [ Goals of Forecasting ]

- Gain a Long-term perspective/ basis for planning
- Determine whether fiscal problems are on the horizon
- Time to plan for change, favorable or unfavorable
- Reinforce the need for long-range considerations during the annual budget process

4

## [ Forecasting- Key Concepts ]

- Projections are not inalterable prophecies, but merely guidelines which may be adjusted as necessary
- Once you develop baseline projections, it's relatively easy to adjust the underlying assumptions to address issues
- Forecasted shortfall does imply that some action will be taken, or at least planned, to avoid the financing problem

5

## [ Forecasting Guides & Tools ]

- MGL, Town Bylaws, other Generally Accepted Standards
- Financial Policies
- Trends Analysis
- Debt Service Schedules
- Union Contracts
- Assumptions, general or specific

6

## [ MGL, Town Bylaws, or other Generally Accepted Standards ]

- MGL governs labor, employee benefits, & requires delivery of certain services
- Town Bylaws require delivery of certain services; enforcement of bylaws
- GAAP/ GASB standards, minimum manning standards, etc.

7

## [ Financial Policies ]

- Financial Management Policies & Objectives adopted by the Board of Selectmen July 2004
- Address:
  - Operating budgets vs. Capital Program
  - Free Cash
  - Stabilization Fund
  - Borrowing

8

## Trends Analysis

- Financial Trend Monitoring Report
- Evaluates Financial Condition, through analysis of indicators.
  - Indicators identify the factors that affect financial condition and arranges them to facilitate analysis and measurement
- Review of last 5 years worth of data [10 years]
- Forecasting relies heavily on trends analysis as overall trends are generally linked together
- Should be updated & expanded if possible, on an annual basis

9

## Trends Analysis- Evaluating Financial Condition

- What is Financial Condition?
- Cash Solvency: ability to generate enough cash over 30 to 60 days to pay bills
- Budgetary Solvency: ability to generate enough revenues over a normal budgetary period to meet expenditures and not incur a deficit

10

## [Trends Analysis- Evaluating Financial Condition]

- Long-run Solvency: ability over time to pay all the costs of doing business, including annual expenditures, as well as those that will appear only in the years in which they must be paid, such as pension costs, other retiree benefits, and debt service.

11

## [Trends Analysis- Evaluating Financial Condition]

- Service-Level Solvency: ability to provide services at the level and quality that are required for the health, safety, and welfare of the community and that its residents desire.
- A government lacking service-level solvency may in all other respects be financially sound, but can't provide adequate levels of a service (fire protection) without causing a budgetary problem.

12

## **[Trends Analysis- Evaluating Financial Condition ]**

- Broadly defined as a local government's ability to finance its services on a continuing basis.
- Specifically defined as ability to:
  - maintain existing service levels
  - withstand local and regional economic
  - meet the demands of natural growth, decline & change

13

## **[Trends Analysis- Obstacles to measuring financial condition ]**

- The nature of a public entity
- The state of municipal financial analysis
- The character of municipal accounting practices

14

## **Trends Analysis-**

### **Obstacles to measuring financial condition**

- **Nature of a public entity**
  - Profit is not a motive
  - Efficiency is only one of many objectives
  - Objectives can only be measured subjectively

15

## **Trends Analysis-**

### **Obstacles to measuring financial condition**

- **Municipal Financial Analysis**
  - Generally focuses on cash and budgetary solvency
  - Lack of normative standards for the financial characteristic of a local government... benchmarks must be considered with other subjective data

16



## **Trends Analysis-**

### **Obstacles to measuring financial condition**

- **Municipal Accounting Practices**
  - Systems stress legal compliance
  - Developed to insure auditability
  - Financial statements track cash in/ cash out
  - Systems to track cost of providing service have not been established

17

## **Trends Analysis-**

### **What is the Financial Trends Monitoring System?**

- **A management tool**
  - pulls together information from budgets and financial reports
  - combines it with economic and demographic information
  - Creates a series of indicators
  - Over time can be used to monitor changes in financial condition

18

## **Trends Analysis-**

What is the Financial Trends Monitoring System?

- Purpose
- Bring issues to the attention of decision makers
- Give early warning of emerging problems/ highlight corrective action
- Introduce the need for long-range considerations during annual budget process
- Provide a starting place for policy development

19

## **Trends Analysis-**

What is the Financial Trends Monitoring System?

- Framework
- Formula
- Warning Trend
- Local Trend
- Description of Indicator
- Analysis

20

## [Trends Analysis- Revenue Indicators]

- Determine the capacity of local government to provide services
- Consider flexibility, dependability, diversity, administration & elasticity
- Flexible to adjust to changing conditions
- Balance between elastic & inelastic to protect against economic cycles

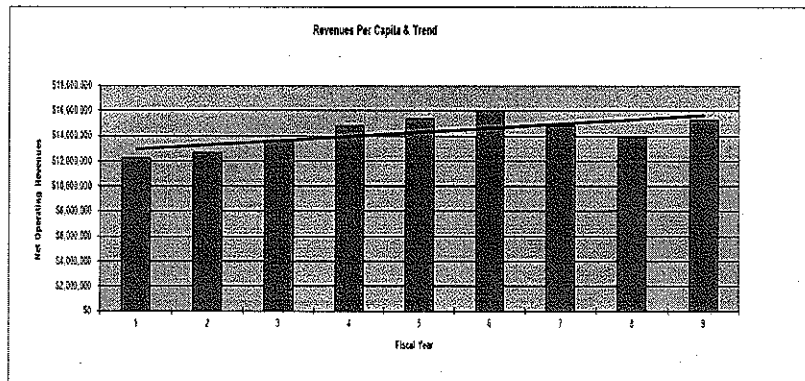
21

## [Trends Analysis- Revenue Indicators]

- Analyzing revenue structure helps to identify problems
  - Deterioration of revenue base
  - Practices or policies that affect revenue yield
  - Poor revenue estimating techniques
  - Inefficiencies in collection and/ or administration
  - User fees that do not cover cost of providing service

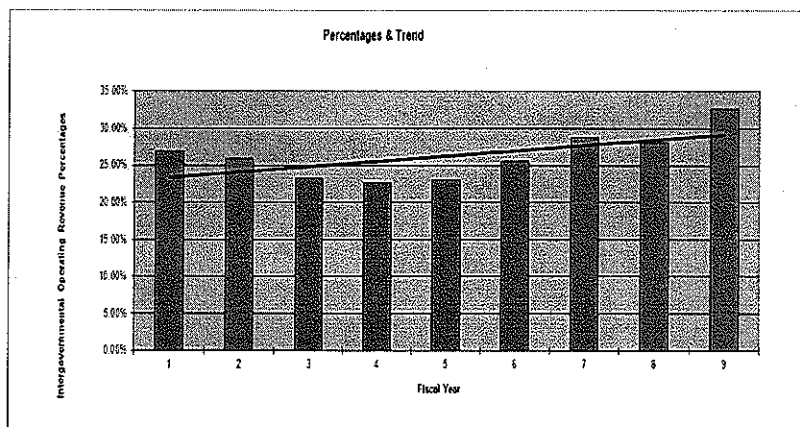
22

## Trends Analysis- Revenue Indicators- Revenue per Capita



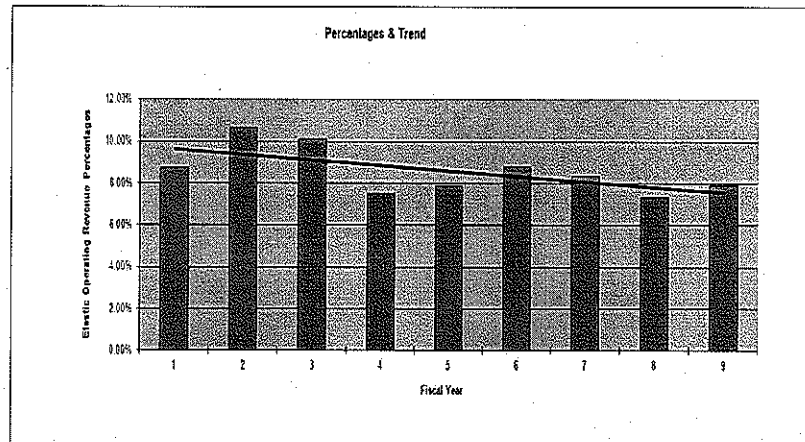
23

## Trends Analysis- Revenue Indicators- State Aid



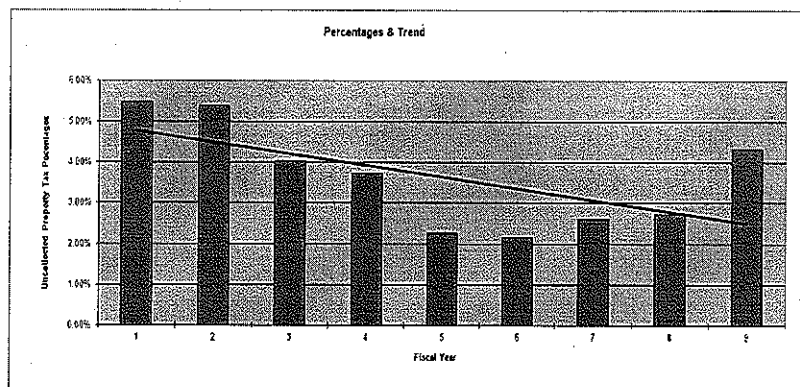
24

## Trends Analysis- Revenue Indicators- Local Receipts



25

## Trends Analysis- Revenue Indicators- Uncollected Property Tax



26

## Trends Analysis- Expenditure Indicators-

- A rough measure of service output
- Expenditure flexibility
- Seems unlikely that expenditure growth would exceed revenue growth
  - One-time monies
  - Borrow for operating capital
  - Reserve Funds
  - Defer long-term/ future obligations

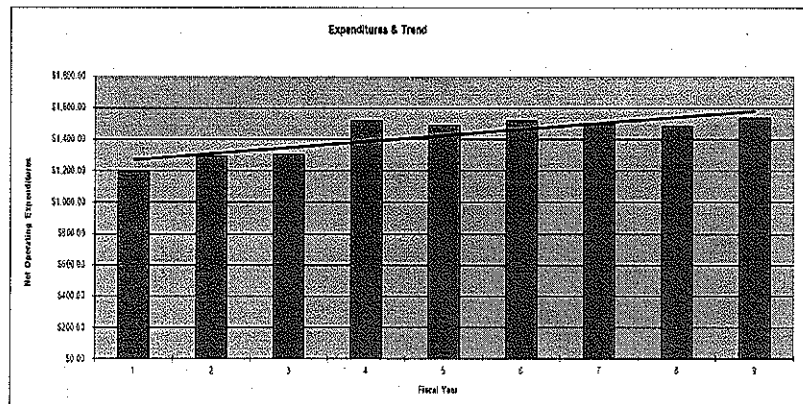
27

## Trends Analysis- Property Tax Revenue

Average Tax Bill			
	Lunenburg	State	% Below State Average
FY2010	\$3,991	\$4,390	9.09%
FY2009	\$3,895	\$4,250	8.35%
FY2008	\$3,774	\$4,110	8.18%
FY2007	\$3,690	\$3,962	6.87%
FY2006	\$3,767	\$3,801	0.89%
FY2005	\$3,538	\$3,588	1.39%

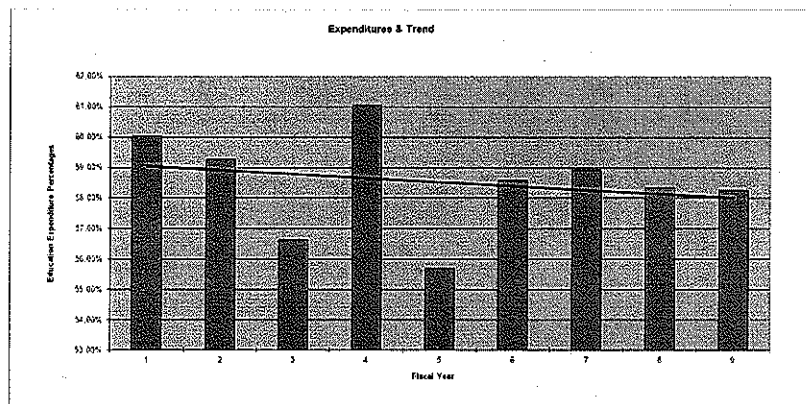
28

## Trends Analysis- Expenditure Indicators- Expenditures per Capita



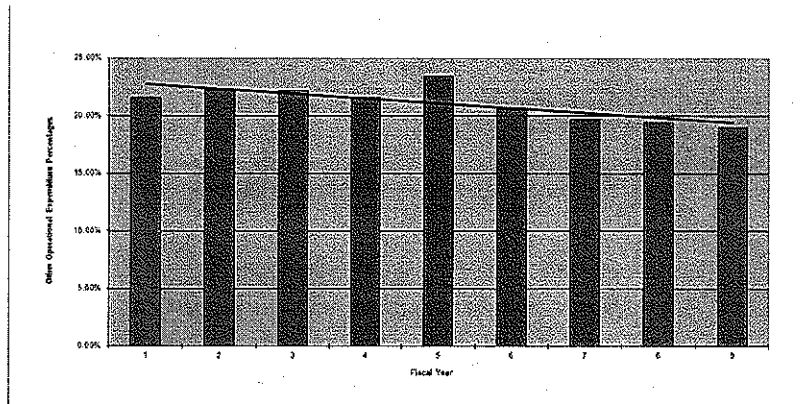
29

## Trends Analysis- Expenditure Indicators- Education



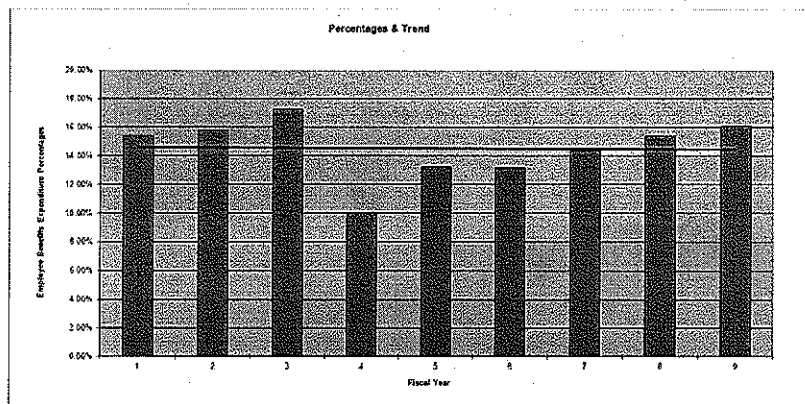
30

## Trends Analysis- Expenditure Indicators- Other Operational



31

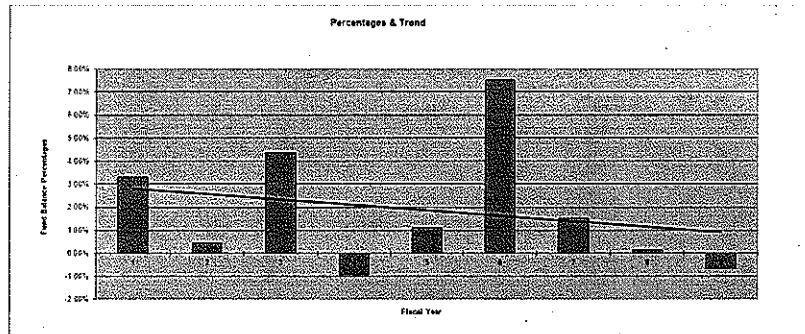
## Trends Analysis- Expenditure Indicators- Employee Benefits



32



## Trends Analysis- Operating Position- Fund Balance



33

## Trends Analysis- Conclusions

- First analysis done in 2008, 5 years
- This analysis includes 9 years worth of data
- Additional data only highlights the severity of budget issues we face
- Important to continue to monitor trends
- Good time to review current practices, & make adjustments to insure fiscal stability

34

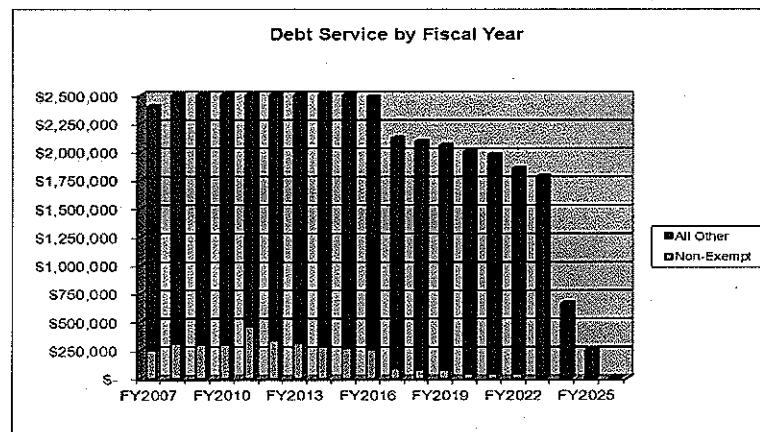
## Debt Service

- Fixed, non-discretionary costs once issued
- Poorly designed or poorly managed bond issues can burden taxpayers with excess interest costs over the life of the issue.

Bond Re-funding (Refinancing) opportunities should be reviewed annually  
To determine if savings may be realized.

35

## Debt Service



36

## [ Union Contracts ]

■ IBPO, Police	2010
■ AFL-CIO, Dispatchers	2010
■ Various School [Teachers]	2011
■ IAFF, PFFM, Fire	2011
■ AFSCME, Clerical	2011
■ IUONA, Public Works (2)	2012

37

## [ Assumptions for Financial Forecast- FY2012 - 2016 ]

- Service Levels
- Future of the local economy
- Revenue structure
- Cost of services

A detailed list of assumptions is provided in the packet

38

## [ Assumptions- Service Levels ]

- Forecast document, to the extent possible, will adhere to adopted financial policies
- Forecast document will honor all contractual obligations, such as debt service schedules and union contracts
- Level of services currently being offered will continue to be offered, and delivered in the same manner, throughout the life of the forecast
  - Increase in personnel (Public Safety & Public Works)
  - Long term plan for implementing Capital Improvement Plan

39

## [ Assumptions- Future of the Economy ]

- No basis for assuming that the economy will change significantly during the life of the forecast
- Some growth in Local Receipts
- Significant concern over the level of State Aid
- New Growth

40

## [ Assumptions- Revenue Structure ]

### ■ Revenues

- **Property Tax-** 2 ½% increase, lower New Growth
- **State Aid-** 10% reduction in major categories (- \$603K); assumes use of "Jobs for Education" grant in FY12 [received in FY11]; No ARRA funding
- **Available Funds-** no use of Stabilization  
Fund to fund operating costs; assumes continued phasing out of Shirley Tuitions
- **Local Receipts-** assumes 2% growth
- **Enterprise Revenue-** will continue to fully fund enterprise operations

41

## [ Assumptions- Cost of Services ]

### ■ Personnel Costs- union & non-union- 3.5% overall

### ■ Expenses

- **General**
  - Overall expenses to increase 2.5%
  - Utilities to increase 5%
- **Department Specific**
  - Recycling = Cover full amount of program (inc. \$40K)
  - Snow & Ice = 5%
  - Health Insurance & Pension = 7.5%
  - Education Expenses = 5%, to account for loss of Shirley Tuitions

42

## [Forecast- to provide Level Services]

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Revenue	\$ 28,247,316	\$ 28,076,866	\$ 29,025,700	\$ 29,857,277	\$ 30,735,393	\$ 31,630,542
Expenditures	\$ 28,170,773	\$ 30,775,299	\$ 32,203,730	\$ 33,405,033	\$ 34,633,138	\$ 35,805,461
Difference	\$ -	\$ (2,698,433)	\$ (3,178,030)	\$ (3,547,756)	\$ (3,897,745)	\$ (4,174,920)
		-9.61%	-10.95%	-11.88%	-12.68%	-13.20%

### Projected Deficits:

FY2012	2,698,433
FY2013	3,178,030
FY2014	3,547,756
FY2015	3,897,745
FY2016	4,174,920

43

## [Forecast- Conclusions]

- We have fiscal issues to address
- Non-sustainable plan
- We must get public input to determine if the level of service provided is meeting the needs of the community

44

## [ Action Plan ]

- Review:
  - Past & current service levels
  - Long-term priorities
  - Possible consolidations
  - Possible service reductions
  - Fee Structure
- FY2012 Budget Instructions
  - Level Service

45

## [ Timetable ]

- |                 |   |
|-----------------|---|
| ■ 11/19/10      | Budget Forms Distributed  |
| ■ 12/22/10      | Budget Requests Due   |
| ■ 1/14/11       | School Committee Budget Recommendation  |
| ■ 02/01/11      | Capital Improvement Program to BOS & FinCom   |
| ■ 02/15/11      | Town Manager Preliminary Budget Recommendation Due<br>Preliminary Budget Public Hearing |
| ■ March & April | Finance Committee Reviews PB & makes recommendation                                     |
| ■ 05/07/11      | Annual Town Meeting   |

46

